

## **Summary of Major Changes**

### **Chapter 1 – Use and Application of GAGAS**

**Introduction and Purpose and Applicability of GAGAS** were rewritten to emphasize the role of auditing in government accountability and the role of GAGAS in achieving improved government operations and accountability. (1.01 – 1.05)

**Use of Terminology to Define Professional Requirements in GAGAS** was added to modernize, harmonize, and clarify language used in the standards. (1.06 – 1.12)

- The Public Company Accounting Oversight Board (PCAOB), International Auditing and Assurance Standards Board (IAASB), and the American Institute of Certified Public Accountants (AICPA) have adopted similar standards to clarify auditors' responsibilities. GAGAS terminology is consistent with the AICPA's Statement on Auditing Standards No. 102, *Defining Professional Requirements in Statements on Auditing Standards*.
- All chapters were significantly revised to clarify auditors' responsibilities and to avoid the confusion that existed in previous versions of GAGAS through the use of the passive voice and other references that were unclear as to the requirement placed on the auditors.

**Citing Compliance with GAGAS in the Auditors' Report** provides guidance on citing GAGAS in the auditors' report when auditors do not comply with all unconditional or all presumptively mandatory requirements. (1.13 – 1.15)

**Relationship Between GAGAS and Other Professional Standards** has been updated to recognize that other sets of professional standards, such as those issued by the PCAOB and the IAASB, the Institute of Internal Auditors, and others can be used in conjunction with GAGAS and provides related guidance. (1.16 – 1.20)

**Types of Government Audits and Attestation Engagements** has been modified to re-write the description of a performance audit to clarify the level of assurance and evidence needed. The concept of equity as a potential performance audit objective was incorporated, and examples of the types of performance audits were updated. (1.21 – 1.42)

### **Chapter 2 – Auditors' Ethical Responsibilities**

Chapter 2 has been completely revised to focus solely on audit organizations' overall ethics responsibilities and auditors' need to observe overarching ethical concepts in performing their work. (2.01 – 2.16) Other materials that had previously been in Chapter 2 have been included in Chapter 1 of the draft.

- Several of the ethical concepts in this chapter were included in the 2003 GAGAS revision in Chapter 1 under "Auditors' Responsibilities," but they were not separately labeled as ethical responsibilities.

- The revised Chapter 2 describes the following ethical concepts that auditors use to guide their work:
  - the public interest (2.05 – 2.07)
  - professional behavior (2.08 – 2.09)
  - integrity (2.10 – 2.11)
  - objectivity (2.12)
  - proper use of government information, resources, and position (2.13 – 2.16)

### **Chapter 3 – General Standards**

**Independence** was reorganized and the guidance on nonaudit services was clarified to facilitate implementing the standard. The standard on nonaudit services was not changed. Specifically, the discussion of nonaudit services was moved from “personal” to “organizational” impairments because it is often the audit organization’s independence that is impaired rather than that of the individual auditor, reorganized the guidance into three categories of nonaudit services, and consolidated and streamlined examples that had previously been interspersed throughout the independence section. (3.02 – 3.35)

- The three distinct categories of nonaudit services are:
  1. Nonaudit services that do not impair auditor independence and, therefore, do not require compliance with the supplemental safeguards. (3.30a and 3.31 – 3.32)
  2. Nonaudit services that would not impair independence if supplemental safeguards are implemented. (3.30b and 3.33)
  3. Nonaudit services that impair independence (3.30c and 3.34)
- Additional guidance in the appendix was included to deal with nonaudit services that are frequently conducted by government audit organizations. (A3.02 – A3.03)

**Professional Judgment** was expanded to emphasize its importance and relate it to key steps in performing an audit. (3.36 – 3.45)

**Competence** was expanded and clarified. (3.46 – 3.58)

**Quality Control and Assurance** was expanded to describe five elements that should be present in an audit organization’s system of quality control: (1) ethics, (2) initiation and continuance of engagements, (3) human capital, (4) performance and reporting, and (5) monitoring quality. (3.61)

**External Peer Review** has been changed to include a transparency requirement that audit organizations that report externally to third parties make peer review results publicly available (3.68). The section also establishes new peer review time frames based on risk and the underlying quality assurance system (3.69). Audit organizations are required to have a peer review

- within 18 months, if the most recent peer review opinion is adverse or modified, and every 18 months thereafter until the audit organization receives an unmodified opinion
- every 3 years if the audit organization has an unmodified peer review opinion and does not meet the enhanced quality assurance criteria for a 5-year cycle or does not chose a 5-year period
- every 5 years if the audit organization has an unmodified peer review opinion and elects to meet the enhanced quality assurance criteria in 3.70.
- developed required enhanced quality assurance criteria for audit organizations electing a 5-year peer review cycle, including
  - a publicly available description of the audit organization's quality assurance system (3.70a),
  - an effective annual internal quality inspection process that meets stated criteria (3.70b), and
  - a publicly available annual written assertion that is consistent with the results of the audit organization's monitoring and inspection processes about the effectiveness of its quality assurance program [3.70b(3)].

#### **Chapter 4—Field Work Standards for Financial Audits**

The following changes have been made to update and clarify the standards for field work:

- update of the AICPA field work standards cited to reflect recent AICPA changes (4.04)
- addition of a clear and prominent discussion on consideration of fraud and illegal acts which clarifies the existing standard (4.07 – 4.08),
- clarifications to the description of abuse and the existing standard on the auditors' responsibility for abuse in a financial audit that is material, either qualitatively or quantitatively (4.18 – 4.19), and
- update of the audit documentation standard for consistency with AICPA's new standard (4.22 – 4.41).

**Chapter 5—Reporting Standards for Financial Audits**

The following changes have been made to update and clarify the reporting standards:

- update of definitions and terminology for internal control deficiencies to achieve consistency with PCAOB and AICPA terminology (5.12 – 5.15),
- clarification of reporting requirements for internal control deficiencies, illegal acts, violations of provisions of contracts or grant agreements, or abuse (5.12 – 5.27),
- addition of a section on emphasizing significant matters in the auditors' report (5.28 – 5.31),
- addition of a section on reporting on restatement of previously-issued financial statements (5.32 – 5.38), and
- clarification of the auditors' responsibilities for reporting views of responsible officials (5.39 – 5.44) and for issuing and distributing reports (5.48 – 5.51).

**Chapter 6 – General, Field Work, and Reporting Standards for Attestation Engagements**

Conforming changes were made to chapter 6 for consistency with changes in chapters 4 and 5.

**Chapter 7 – Field Work Standards for Performance Audits**

The field work standards for performance audits have been significantly revised within a framework related to significance (materiality), audit risk, and reasonable assurance.

The following changes were made:

- addition of a section on the concept of significance in a performance audit (7.04 – 7.05),
- addition of a section discussing audit risk (7.06),
- definition of the level of assurance associated with a performance audit as providing reasonable assurance that auditors have adequate support to achieve the audit objectives and reach conclusions (7.13),
- clarification throughout chapter 7 of the levels of evidence needed to achieve audit objectives, recognizing that objectives vary and, therefore, so will the nature of evidence needed,
- incorporation of the concept of risk into the auditors' planning and evaluation process,
- inclusion of a section on information systems controls for the purpose of assessing audit risk and planning the audit (7.25 – 7.27),
- emphasis of auditors' professional judgment and the focus of audit work in relation to the audit objectives,
- clarification of the auditors' responsibility for responding to indications of potential fraud (7.31 – 7.33),
- clarification of the auditors' responsibility for abuse (7.34),

- incorporation throughout the standard of the concept of “sufficient, appropriate evidence” to replace “sufficient, competent, and relevant evidence.” This terminology is consistent with other standards setters. (7.53 – 7.69)
  - Appropriateness is defined as a measure of quality, which encompasses relevance, reliability, and validity in providing support for audit objectives. (7.56 – 7.62)
  - Sufficiency is defined as a measure of quantity and is evaluated based on the collective audit evidence supporting findings, conclusions, or recommendations related to the audit objectives. (7.63 – 7.64),
- description of and emphasis on the overall assessment of evidence to avoid confusion about how to apply the standards (7.65 – 7.69), and
- revision of the audit documentation section to conform with chapter 4. (7.74 – 7.92)

### **Chapter 8 – Reporting Standards for Performance Audits**

The reporting standards were streamlined and conforming changes were made to reflect changes in Chapter 7. The auditors’ responsibilities for reporting the views of responsible officials (8.35 – 8.40) and report issuance and distribution (8.44 – 8.47) were clarified.

### **Appendix**

An appendix has been added to provide supplemental guidance to assist auditors in the implementation of GAGAS. This guidance does not establish additional GAGAS requirements.